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A HISTORY OF THE FINANCE DIVISION
OF THE
RURAL ELECTRIFICATION ADMINISTRATION



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THE FIRST FIFTEEN YEARS X

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BY

JOS. F. MARION

RETIRING CHIEF OF THE DIVISION

ISSUED
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OF THE
RURAL ELECTRIFICATION ADMINISTRATION

** THE FIRST FIFTEEN YEARS **

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- I. The Beginning
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FOREWORD

The rural electrification program as it stands today as a federal activity is more of a growth than a development.

The internal structure of the Rural Electrification Administration, while necessitated by over-all growth and expansion of the nation-wide program, is a development. Each division in that structure is a specifically designed organization within the agency developed by experts in the various specialized fields of the program's natural growth.

The Finance Division, as its title implies, had its roots, of necessity, embedded in the very first functional act of the Administrator which resulted in the closing of a loan of public funds to a borrower.

As these activities increased in variety and number there were gradually developed methods, procedures, policies and facilities to control, safeguard, and account for every cent of public funds loaned as well as the security behind them.

These functions fall clearly in the field of finance but the development of a plan capable of expanding to meet future requirements which might become legal responsibilities of the Administrator was one of the most exacting types of assignments, combining as it did constant application of industrial engineering skill and experience.

The REA Finance Division as it stands today represents the culmination of an unfailing effort to develop a financial organization exemplifying the highest degree of efficiency.

To trace its development from the first loan to the last one made to date, step-by-step, over a period of fifteen years, is to tell the factual story of REA's accomplishments as a lending agency of the Federal Government. Not only this, but it is to tell the story of one of the most unique safeguarding and collection services ever rendered to the Treasury of the United States, as legal owner and holder of the notes, mortgages and deeds of trust evidencing indebtedness to the United States of America.

A story confined to finances is usually lacking in romantic interest, but because of the extremely unusual characteristics of REA, it is hoped that this attempt may not be either wholly uninteresting or devoid of some service value.

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THE BEGINNING

ORIGIN OF THE REA

The Rural Electrification Administration is an out-growth of the Emergency Relief Appropriation Act of 1935, and is specifically covered by Executive Order No. 7037, signed by the President of the United States under date of May 11, 1935. The REA is one of several agencies which were established to carry out activities authorized by the Relief Appropriation Act, some of the others being the Works Progress Administration and the Resettlement Administration. In the Act, a maximum of \$100,000,000 was provided for rural electrification. Statutory provision for the agency was made in the Rural Electrification Act of 1936, approved May 20, 1936.

PURPOSES OF THE AGENCY

The principal purposes of REA at the time of organization, as indicated either in the Relief Act or in Executive Orders issued pursuant thereto, may be listed as follows:

1. To make loans to public utilities, cooperatives, municipalities, power districts, and other bodies to construct rural electric systems to serve farms and rural residences not already receiving central station electric service.
2. To promote work and work relief.

FIRST ADMINISTRATOR

Morris L. Cooke, a consulting engineer, was named as first Administrator of REA. Mr. Cooke, who had won for himself an enviable reputation in the field of industrial business engineering in the State of Pennsylvania, may well be referred to as the "Architect of REA."

When he took over in those early days, there were no designs on the trestle-board, so to speak, for the great undertaking which Congress, through the Relief Act, had made possible - that of making available the loan of public money, on a long-term basis and at a low interest rate, for the electrification of rural America. An abstract idea, not too well defined, was placed in his hands - a mere seed which he was to plant, cultivate, nurture and control.

Every phase of scientific management, administration and business engineering was involved, and these Mr. Cooke possessed, both by training and experience. He "made haste slowly", but deliberately. He surrounded himself, intimately, with persons who were acquainted with his methods and habits of thought and who, in most instances, had had, over a long period, close association with him in his engineering practice and had won his confidence in their capability and reliability.

THE WRITER
JOINS REA

Mr. Cooke not only had to perform the early planning for REA but shouldered the responsibility of obtaining personnel who had previously proved their worth professionally to assist in carrying out those plans. It must be borne in mind that at the inception of REA it was necessary to develop every phase of operation required by the new organization. No similar organization had ever been created or set in motion by the United States Government nor had there been a similar governmental action taken anywhere else. It was a new departure in every respect.

That was the background when the writer was asked to join the REA organization. He was informed that plans for a large program had been inaugurated and that if he were willing to risk some time and effort, and if the organization prospered, eventually he could become head of a finance division. In other words, it was definitely a case of casting one's lot in something that had not yet been developed, with nothing certain in sight to compensate for the time and effort expended.

Miss Margaret McKim, who had for many years been Mr. Cooke's secretary, came with him and for some time helped to lend to the REA Administrator's office those familiar business engineering characteristics of regularity, definiteness and purposefulness.

Mr. Cooke's ability to delegate responsibility on a broad basis was only equaled by the impartial severity with which he selected those to bear it and the exactitude he invariably exercised in demanding specific results.

The writer, who had worked with Mr. Cooke in a professional way over many years, has never felt himself more highly honored or complimented than when requested by Mr. Cooke to join him in the job of engineering into existence the basic operational structures of this new agency. This was in 1935. His outstanding memory of that morning of November 1, 1935, is that when he walked into Mr. Cooke's office at 2000 Massachusetts Avenue, he found that Miss McKim, alone, was there to greet him, which she did with these words: "Mr. Marion, Mr. Cooke is out but he suggests that you proceed to your work, since your past experience in building up new organizations requires no further instruction."

SKEPTICAL ABOUT
SUCCESS OF REA

In view of the writer's early experience with farmers, he was somewhat skeptical regarding the success of REA. The farmer of yester-year seemed unable to comprehend that, although the need for electricity was paramount, such service could ever become an actuality. To borrow money, even from the Government, meant "to go into debt," a thing that only dire necessity could cause him to do.

If the program were to depend for its success upon the lending of funds to existing power companies, so that they could extend their services into rural areas, it involved a selling program with farmer resistance too great to be readily overcome. It also involved many questions of public utility regulation, as well as return on invested capital, of an insurmountable nature.

Unless there were some other way out, this program would be a narrow and slowly moving one. That was not the aim of the Congress. Rural America must be electrified, and it was ready and willing to make government funds available in order to accomplish this objective. To lend these funds was the task of REA. A great economic problem loomed high upon the horizon; if it were to be solved, the organizational structure which he had the responsibility of designing would have to be keyed to the current economic trends.

The very first demands were, in any event, to develop means, methods and facilities for properly accounting for every cent of Uncle Sam's money.

The finance structure of REA as a loan agency had to be ready to function at the granting of the very first loan, no difference as to whom it was made.

This structure required immediate attention-- so work began.

SURVEY MADE
OF OTHER
AGENCIES

In the early stages of the REA, no one in a responsible position had access to any comparable prior experience of other government agencies and benefits.

It was necessary to dig out "from scratch" what was needed. A committee called on AAA, PWA, and various other agencies but all that could be produced was a collection of technical forms and not much real information. Most of the agencies visited were those having authority to lend money but a certain portion of their disbursements was in the form of donations.

DIFFICULTIES
OF FIRST YEAR

One of the difficulties of the first year was getting a staff together. No one knew how to do anything in a clear-cut way. The field of experience was extremely limited and the small budget allowance for 1935 was a handicap wholly insurmountable. Economy in operational overhead from the start, as today, was the natural watch-word of REA. This, within itself, became an engineering problem with which to reckon and perhaps resulted in solutions which have streamlined, standardized and so admirably systematized the REA program into the ultimate of simplicity possible for its present size and variety of activities. Perhaps no agency in government today renders so much service with so few at so low a cost.

It is, apparently, just another demonstration of the truth of Longfellow's verse:

"Little efforts work great actions;
Lessons in our childhood taught,
Mould the spirit to the temper,
Whereby noblest deeds are wrought."

There would be obviously, a need for electrical engineers, legal advisers, economic advisers; also business, administrative and financial management experts. Some of these could be developed from within around key men of broad experience. The first organization layout set up, in addition to the Office of the Administrator, an Engineering Division, a Legal Division and a Management Division. The planning contemplated ultimate specialization of their activities, but until such time as the agency's activities had expanded as to volume of specialized requirements, each carried unusual functions.

Until the end of 1936, the entire agency staff comprised not more than one hundred persons.

As most people visualized the future of REA in 1935, it did not appear that the workload would ever be great enough to require a specific division devoted to finances and financial activities. Mr. Cooke, however, was one of those persons of broad vision who did not share this view.

NEED FOR BEST
SELECTION OF
EMPLOYEES AND
THOUGHT IN
SETTING UP
METHODS AND
PROCEDURES

Because of the tight situation at the beginning, emphasis was placed on the best possible selection of employees. It was also realized that careful thought must be given in setting up methods and procedures, since the methods devised must be of the type which would reflect stability and directness.

WORKLOAD HANDLED
TO KEEP REVISION
OF PROCEDURES
AT MINIMUM

on the contrary was rather pleasurable, because everything accomplished was done in a virgin field.

ENGINEERING
DIVISION
RESPONSIBLE FOR
DIRECTING WORK

In the very early period of the program, covering the years 1935 and 1936, the Engineering Division had generally the responsibility of directing the work of the then existing organization.

Electrical engineers were engaged in receiving and registering loan applications, obtaining all necessary approvals, making allocations, and reviewing construction contracts. They were processing requisitions and carrying on other similar activities.

Mr. M. O. Swanson was Chief Engineer with Mr. Allen Vardy acting as his assistant. In accordance with the early thinking, there was not only no need for a Finance Division but there also appeared to be no need for cooperative managers or bookkeepers on the projects, since the Engineering Division was considered capable of handling all such borrowers' requirements.

Mr. William Herring was an engineering consultant. He took care of all engineering matters concerning overall problems, and the operating details were left to Mr. Swanson.

MANAGEMENT AND
FINANCE DIVISION
HAD EMBRYO
FINANCE GROUP

The then Management and Finance Division had as one of its units the embryo Finance group, consisting of three people; Mr. Cockrell, the writer, and Miss Streeter.

That small group had the responsibility of preparing forms for advancing funds to borrowers. Such forms were to be used by the section of the Engineering Division responsible for advancing monies.

The Management and Finance Division also performed most of the work now assigned to the Administrative Services, Personnel, Information Services, and Finance divisions. Mr. Perry R. Taylor was the acting head of the division.

LEGAL
DIVISION

The Legal Division was headed by V. D. Nicholson. Mr. Nicholson and Mr. Herring had a large part in directing the operations of REA. There was no sharp line of demarcation drawn.

FIRST TWO
ADVANCES
IN 1935

During December 1935 there were two advances made of \$5,000.00 each to two Midwestern projects in accordance with Administrator Cooke's instructions.

SURVEY
CONDUCTED

The writer was requested to begin a survey of each division and to compile a report of what was being done, the object being to determine what functions were either actually performed or required to be eventually included as Finance Division activities.

The survey was conducted under considerable difficulty but finally concluded. Approximately three weeks were required for assembling, arranging, and typing the notes in completed report form. One difficulty connected with obtaining information was that those conferred with most times possessed but partial or undeveloped information, because of the newness of the program. The written report of the survey was submitted on January 10, 1936.

FINDINGS OF
THE SURVEY

The survey disclosed that Engineering Division received and registered applications for loans; obtained legal, engineering, and financial approval; prepared allotments and secured the Administrator's approval; and reviewed and approved construction contracts and methods. In addition, the Engineering Division exercised control of loan funds, by approving financial requirement statements and performing other activities later considered of sufficient importance to warrant transfer to a separate finance division.

According to the survey, the Legal Division was responsible for legal opinions on the validity of new projects; conferred with borrowers on development of their loan contracts; examined all executed loan papers; and consulted on legal matters arising during construction of electric systems.

The survey further disclosed that the Management and Finance Division had responsibility for matters later handled by what eventually became the Administrative Services Division and the Personnel Division, together with certain responsibilities finally placed in the present Finance Division. The Management and Finance Division did personnel work; distributed mail; maintained central files; operated a stenographic and typing service; provided building services and telephone operators; handled procurement, payrolls and travel orders; and audited administrative vouchers. With respect to the borrowers, the division reviewed their credit standing and financial position; judged the validity of vouchers for payment of loan funds; accounted for allocations, advances, and repayments on loans; directed and supervised the field audit program; assisted borrowers with respect to record-keeping; and collaborated with other divisions on accounting matters.

The survey permitted drawing out of the growing organization an understanding of the work which would be considered to represent definite Finance Division functions.

THE WRITER'S
REPORT LED TO
DRAFTING OF
MANUAL OF
ACCOUNTS

A survey of Finance Division needs was made, utilizing the report which was prepared by the writer. This eventually led to the drafting of a manual of accounts. The staff searched about and gathered everything possible on accounting, including the Federal Power Commission manual, and out of all this was prepared the first edition of the REA manual, which subsequently led to the drafting of forms required. This included forms for operating in the field and also internally. The next step was to draft the initial form of the borrowers' monthly operating report. All this work was first done by a committee of two, consisting of Paul Cockrell and the writer. Later, these two men were joined by Robert Hannah.

SIMPLIFICATION
KEYNOTE IN
SETTING UP
MANUAL OF
ACCOUNTS

In the development of the facts for setting up the REA Uniform System of Accounts, the finance people were continually reminded by Mr. Herring and Mr. Nicholson to make the chart as simple as possible and to make simplification the keynote both in setting up the accounts and in developing forms to be used. This was constantly urged because of the fact that the people with whom REA dealt were largely ignorant of such subjects.

FPC ASSISTANCE
SOUGHT IN
PREPARATION
OF MANUAL

In an endeavor to meet that phase of the situation, the writer concluded that perhaps the greatest amount of assistance could be obtained from the Federal Power Commission, since it was the belief that that body would have manuals of accounts which would fit various levels of public and private utilities. In this connection, however, he was disappointed, since Mr. Smith, who was then in the employ of the Federal Power Commission, informed him that they did not have any charts that would cover the type or grade of utilities which REA would deal with. However, he offered to add to the REA committee a representative from his organization to aid in the working up of necessary information. This constituted a joint effort which was found to be very helpful.

LOANS TO BE
MADE TO PRIVATE
UTILITIES

The Administrator announced that available loan funds should be distributed among existing commercial utilities where justified reasons could be submitted. There were very few which availed themselves of this provision, and only three during 1936: Tidewater Power, Georgia Light and Power, and Florida Power. The amounts borrowed were not particularly large.

COOPERATIVES
GAIN GREAT
IMPORTANCE

Suddenly it was realized that the commercial power companies were not, in fact, going to be willing to do the job. Meanwhile, the idea of cooperatives was gaining great importance and the picture was entirely reversed. Private utilities were receding into the background as far as REA loans were concerned, and many new cooperatives were springing up.

The cooperative idea and practice was not entirely new to the American farmer. It had, however, not been applied to such self-service as is involved in the matter of providing facilities and activities for making electricity available to cooperative members through the use of borrowed capital.

Cooperatives of this character were functioning in some European countries, and it was the conviction of many that cooperative principles could be adapted so as to enable an electric cooperative to become a legal borrower of federal funds in full accord with American ideals of good business. Much advanced thinking has been done in this regard along legal lines, and facts were rapidly becoming available as a result of surveys and studies of these European cooperatives.

It was obvious to those who were planning REA's future growth through the use of cooperative organizations that only by means of the truly American instrument of a corporate structure would these groups ever be able to function as borrowers from Uncle Sam.

With this as a premise, the plans for REA's financial activities and records were developed first along the conventional corporate line and then with ample expansive provisions to insure the members of each cooperative service at cost and an equitable share in the servicing of the loan as to interest and principal, in accord with the "no-profit-to-anyone" idea, basic to cooperative principles. This early preparation proved to be along the lines of Congressional purpose, and in accord with the needs as they presented themselves in later years.

A cooperative corporation, of course, can borrow money for the benefit of the group and collect from the members of the group enough to pay the cost of serving them, pay interest on the money, keep up their property and pay the loan. All of this has to be accounted for to the representatives for report to the members, and if the corporation finds it has collected more than "cost of service" for service, it must, according to cooperative principles, account for this to the members annually. The cooperators mutually consent to be billed for depreciation, interest, actual cost of service and enough to repay the loan, when they accept a billing rate.

All of these financial matters had to be taken into consideration, since faithfully carrying them out would be one of the factors upon which the Administrator relied in certifying that the federal loan would be paid. They had to be provided for in the financial controls planned for REA.

It was self-evident that not only would a uniform system of accounts have to be provided for these borrowers, but a complete system of controls would have to be provided to make sure that the system was operating.

These unique conditions indicated that any financial plan for REA would have to include a specialized accounting staff and a specialized audit staff, as well as a staff to control the use of public money released under the notes. This necessitated much visualization and long-range planning.

COOPERATIVE
MEMBERSHIP
LACKING IN
BUSINESS
KNOWLEDGE

The cooperative membership consisted of farmers who had no knowledge of how to direct the work of utilities, and who were little versed in bookkeeping or accounting methods. This was one reason why, during the early days, the existing staff of auditors (later described) had to devote a high percentage of time to instructing partially-informed bookkeepers regarding the records.

FINANCE
RESPONSIBILITIES

In regard to the matter of finance records and reports, it was evident that certain requirements must be met. These cooperators must be shown "what to do" in regard to records and reports; they must be shown "why" these records and reports were needed; they must be shown "how" these records and reports were to be provided.

It was obvious that planning for REA future financial controls should provide for responsibility to educate, to justify, to demonstrate, to assist and to produce.

The borrowers must be shown "what" records and reports they must keep and prepare to meet federal needs. They must be shown "why" they were needed. They must be shown "how" they were to be kept and produced. The established controls must be capable of proving that they were being so kept and produced. To meet the "what" as to the federal fiscal control requirements, it was, of course, necessary to devise synchronizing counterparts as external controls to be kept by the cooperatives. Briefly, the following accounts and records were designed for the REA office:

1. A record for the amount of each loan contract.
2. A record for the amount of each note executed.
3. A record showing the amount of each budget purpose of each note executed.
4. A record, by budget purposes, for each amount of cash requested by borrower.
5. A record, by budget purposes, for each check releasing funds from the Treasury.
6. A record showing conversion of federal cash into property assets by borrower.
7. A record of all budget changes agreed upon by the borrower and lender, if any.

The counterparts of these records to be kept by the cooperative were established as follows:

1. An account recording the amount of the contract obligation.
2. An account showing total allotment of loan contract.
3. A form, by budget purposes, to be used in requesting release of funds from Treasury to borrower's account under each note.

4. A form, by budget purposes, showing each release from the Treasury of funds requested by borrower under each note.
5. A form for requesting budget changes by borrower.
6. A record of budget changes agreed upon by the parties.
7. A special cash deposit register for all federal funds advanced, by purposes, and held in trust for the Government.
8. A special check register, by purposes, to record trust fund expenditures approved by REA.

The "why" aspect of these federal fiscal controls was not difficult to explain to those in the REA office but to these borrowers, inexperienced in dealing with the Government, these formalities appeared to be useless "red tape." Most of them would say, "You have our note; why all this fuss about sending us the money?"

It was evident that for this alone there would have to be a field force for the Finance Division activity. This force would have to be well versed in federal fiscal accounting.

The second step in developing the financial controls for this new agency presented a complexity of conditions to consider not usually found in the practice of the profession of accountancy. These conditions were in addition to those incident to the federal fiscal controls heretofore discussed.

Some of these peculiar requirements were, briefly, as follows:

1. Control of finances in a corporation;
2. Control of finances in a cooperative;
3. Control of finances in a national business investment; and
4. Control of finances in a trust estate.

This required the development of the simplest possible kind of records and procedures combining the principles of:

1. Corporate accounting;
2. Cooperative accounting;
3. Electric utility accounting;
4. Investment accounting; and
5. Trust estate accounting.

Over and above all was the fact that these borrowers were not entrepreneurs but inexperienced operators of a self-service enterprise, through facilities to be gradually acquired and held as community property through the liquidation of the loans and voluntary contributions. These borrowers were in most instances wholly unacquainted with electric public utility matters.

The plans developed for providing these controls were basically as follows:

1. The establishment of a uniform system of accounts and procedures for all borrowers.
2. A standardized billing and collection procedure at the home office.
3. A specially trained field staff to install, supervise and audit the records of borrowers.

A double-entry system of bookkeeping was adopted and required. In addition to the federal fiscal accounts appearing upon their records, to satisfy the corporate necessity, the following types of accounts were provided for:

1. Fixed and current assets.
2. Fixed and current liabilities.
3. Revenue and expenses.
4. Reserves and net worth.
5. Tangibles and intangibles.

However, eventually, to achieve greater accuracy of nomenclature, the terms, "net profit" or "net loss" were replaced by the terms, "margins" or "deficits;" "surplus" was replaced by "member & other equities;" and the term "capital stock" was replaced by the term "membership fees."

To differentiate between net margins or deficits arising through cost of service and collections therefor, and those derived from extraneous activities, the former were called "operating margins or deficits" and the latter "other margins or deficits."

This was not all. The corporate term "dividend" became "refunded operating margins" and was not determined upon the basis of stock ownership but upon the basis of patronage.

If operating margins were not paid in the year collected, they were held in trust for the respective members to whom they belonged, subject to call, unless the members, at the annual meeting, voted otherwise or the individual member relinquished his claim. (The capital credits idea developed in later years.)

In order to provide controls and safeguards for the loans by classifying the assets so that a readily marketable character would show, the recognized accounts of electric public utilities were set up.

JOHN M. CARMODY
BECOMES
ADMINISTRATOR

Morris L. Cooke resigned from his position as of February 15, 1936, and John M. Carmody became the new Administrator on February 17, 1936. Mr. Cooke, as an industrial engineer, had greatly enjoyed the work with REA during its formative period. He then looked about for new fields to conquer and left the conduct of early operations in the capable hands of Mr. Carmody.

AUDITING
PROGRAM
BEGINS

Robert Hannah and Floyd Kneisly were the first two men to come in on the auditing program. A request was made of the Budget Bureau to set up funds for four auditors. The idea was to have them start early in an effort to have borrowers headed in the right direction at the beginning of the program.

GAO DECISION
A-51630

were made:

On February 28, 1936, Mr. J. R. McCarl, Comptroller General of the United States, rendered a decision to the REA Administrator in which the following points

1. That the typical REA docket for GAO audit would contain: audit report of the special construction account; statement of project expenditures supported by receipts for material purchases and certified payrolls; certificate of borrower's engineer relative to construction completed and still to be done; and certified statement of borrower's treasurer as to financial position.
2. That GAO be furnished regularly with advice as to each new allotment to a borrower, with memorandum copies of loan vouchers, and with a monthly carbon copy of all transactions recorded in borrowers' accounts in the notes and securities ledger.
3. That a prescribed system of administrative accounts be used by REA, together with a prescribed allotment ledger.

DIFFERING
VIEWPOINTS

Neither Mr. McCarl's letter nor other communications of the time made clear GAO's position regarding the supervision (if any) it planned to exercise over the expenditure of funds by REA borrowers. This point was involved in the question of the necessity for inspection, inventory, and audit of advances, expenditures, and plant obtained therefrom, which was the subject of many long, written arguments and rebuttals between the writer and Mr. Nicholson, Chief of the Legal Division.

Toward the end of 1937, these counteracting memoranda had become so extensive that Administrator John M. Carmody, on December 21, wrote as follows to the debtors:

"The tonnage of words flowing over my desk with respect to the jurisdiction of the General Accounting Office over the auditing of funds invested or spent by borrowers of REA funds indicates the necessity for reaching some definite understanding here reasonably promptly."

The contestants issued one or two more broadsides after that and then the discussion dropped out of the limelight, as each made some concessions. It seems that GAO wanted more data than Mr. Nicholson had thought necessary to give that organization and somewhat less than the writer felt should prudently be furnished thereto.

PROCEDURE
ADOPTED The procedure which was developed following an initial meeting with GAO representatives was incorporated in the Manual of Operating Procedure. It provided that when borrowers requested funds or reported on the progress of their projects they were to use the following forms:

Financial Requirements (or Project Expenditures) for Primary Distribution;
Financial Requirements (or Project Expenditures) for Miscellaneous Items;
Financial Requirements (or Project Expenditures) for Transformers and Secondaries;
Financial Requirements (or Project Expenditures) for Customer Services;
Statement of Construction Progress;
Verified Statement of the Treasurer;
Certificate of No Change in Bylaws;
Voucher for Payment Under Loan Contract; and
Hourly Payroll Forms and Monthly and Semi-monthly Payroll Forms.

ACHIEVED
RESULTS WITH
FINANCE
PROCEDURES Although revision of the early forms and procedures was undertaken at intervals, when deemed desirable, it is evident from the record that the forms and procedures and the REA employees who processed them all were adequate to the needs of the time. Witness the following letter from Administrator John M. Carmody to the writer, as Chief of the Finance Division:

"February 1, 1938"

"My dear Mr. Marion:

"Bang! Bang! goes 40 million. If 50 million Frenchmen can't be wrong, certainly 40 million dollars out of the Treasury to pay for labor and material for construction can't be very wrong. We'll soon make it 50 too.

"I just want to say you've done a swell job. Put the oars up for a few minutes and take a bow. Take a bow? Yes, a bow from REA and harrassed project superintendents, and from contractors, and from Tom, Dick and Harry in the material business.

"Great work - thanks.

Sincerely,

John M. Carmody
Administrator"

MANUAL OF
OPERATING
PROCEDURE

In January 1937, there was issued to the REA borrowers, a "Manual of Operating Procedure." It was divided into the following major sections:

Accounting
Development
Engineering
Legal
Rates
Utilization
Miscellaneous

In this manual we find evidence that some very clear thinking had been done with respect to establishment of definite procedures to carry out the REA program.

ACCOUNTING
SYSTEM
OUTLINED

The section of the Manual of Operating Procedure devoted to accounting procedures included a chart of accounts based upon the Federal Power Commission's Uniform System of Accounts used by its licensees.

Further on, there were shown the forms to be used in the accounting system, including meter-reading records, consumers' ledger sheets, accounts receivable and payable ledger sheets, general journal, record of audited invoices, cash received and disbursed register and general ledger sheets. All were explained in great detail.

In addition, there were sample voucher checks, transformer records, service interruption records, operating reports, loan application forms, project survey forms, etc.

GENUINE
EFFORT MADE

It is evident from a review of the files that the persons who collaborated in developing the procedures, forms and instructions, were governed by a sense of responsibility which motivated their action to the extent that all ideas projected were thoroughly discussed and tested to the extent practicable, in order that the REA and its borrowers might have the use of the best and

most appropriate methods for carrying out the wishes of the Congress. Because of the fund limitations previously mentioned, it was necessary for considerable overtime to be devoted to this work and it is plain to see from the number of drafts and revisions of various forms and procedures that intensive effort was expended to produce the best of which the individuals involved were capable.

EARLY BIRDS
IN THE
DIVISION

It appears appropriate to mention here the names of the persons responsible for the financial and accounting work of REA in those early years. During the period prior to 1940, there were engaged in this work the following persons, among others, in addition to the writer:

Perry R. Taylor	Paul Cockerell
George E. Chamberlin	Robert R. Couse
F. Allen Vardy	John S. Tarr
Floyd D. Kneisly	Foster Adams
D. B. Gilmore	John Scott
R. V. Hannah	William Nixon
Wesley M. Giles	Emil Otto
John W. Asher, Jr.	Herbert Sanders
Dev Killion	Harold Waterhouse
Dorothy Lisherness	George Gilleland

ACTIVITIES
UNDER THE
SUPERVISION
OF THE WRITER

As the division grew, it was necessary to add new sections. The Accounting Section took care of all accounting matters from an operating standpoint and also further duties now carried on by the Committee on Accounting Techniques, Procedures and Policies. It was responsible for a compilation of an early accounting system used by the cooperatives, together with an interpretation of accounts.

AUDIT
SECTION

It was the intention that there should be a staff of ten auditors. It was the duty of this section to determine the manner in which funds had been spent and if they were properly accounted for, that the system of accounts was followed, and that the work performed was being done honestly.

FINANCIAL
INVESTIGATION
SECTION

The responsibility in this case was to make studies of the financial status of borrowers, principally as to whether the procedures were clearly carried out. This work was under the supervision of Floyd Kneisly. Studies were also made as to the financial operation and management practices. Studies covering the localities in which these cooperatives existed were also made and a report was made of the findings to the then existing division which was comparable to the later Applications and Loans Division.

INSURANCE
SECTION

The work here consisted of making determination that all existing projects actually carried out instructions in regard to proper insurance coverage of various types.

TAX SECTION

This section assisted cooperatives with matters relating to federal and state taxes which would fall to their lot.

VOUCHER AUDIT
SECTION

This section had to do with making of advances of funds to the borrowers and planning operating statements, etc.

IMPROVEMENTS

Because the Finance Division had a great volume of work to perform with a limited staff, one of the major purposes of form and procedure revision was to achieve greater economy in operation. For example, during the fiscal years 1938 and 1939 the following revisions relative to the mechanics of advancing funds were carried out in the interest of efficiency and economy:

1. Establishment of standards for approving items required by the borrowers so employees of the Project Voucher Audit Section would not have to spend time contacting other divisions.
2. Division of the section into units so that audit clerks would be familiar with the particular projects in their territory.
3. Consolidation of borrowers' secretary's and treasurer's certificates on the same form with the financial requirement statement.
4. Elimination of detailed checking of project expenditure statements.
5. Elimination of pre-audit of expenditures by projects and establishment of a budget on each project so that funds could be requisitioned against classifications of expenses instead of individual items.

MERRY MIX-UP
IN RECORDS

The affairs of the division did not always run as smoothly as was indicated in the Administrator's letter complimenting the division on the accomplishment of advancing 40 million dollars. On October 28, 1938, Mr. Carmody addressed the following communication to the Finance Division:

"Subject: Decomposing Correspondence

"I have before me an inventory of letters charged to your Division which are unanswered. I do not know whether you have been given a copy, but the statement suggests that not only do we have too many letters unanswered but some of them must be very stale.

<u>Status</u>				
<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>Total</u>
87	144	225	309	765

"I hope before another week passes we can at least clean up the old letters that arrived in July, August and September. This ought to be made the special aim of the Division."

However, the writer was able to show, in his reply of November 8, 1938, that the machinery for giving notification of correspondence clearance was at fault and that, in actuality, there were only 254 unanswered letters on hand.

AMUSING INCIDENT
ILLUSTRATING
LACK OF KNOWLEDGE
OF PROJECT
OFFICIALS

To illustrate the degree of lack of knowledge on the part of project officials, one amusing incident in the State of Idaho is worthy of mention. REA requested the president of the cooperative in Idaho to send in a report covering the amount of borrowed funds which were spent for capital purposes. He

waited about two weeks and then replied as follows: "Do not understand what you are talking about; consequently, we do not have any."

REVISION
OF BASIC
ACCOUNTING
MANUAL

The first comprehensive chart of accounts for use of REA borrowers was that contained in the Manual of Operating Procedure, issued in January 1937. This served very well, with minor revisions, until October 1940, when a new manual containing a

revised uniform system of accounts was issued. The borrowers' offices were also supplied, about this time, with a volume called "The Bookkeepers' Handbook," which gave instruction in some detail on various phases of the bookkeepers' work. This handbook proved to be a very valuable aid but it tended to be used by the bookkeepers to make it unnecessary for them to think for themselves. In later years it and the 1940 manual of accounts were superseded by accounting manuals which gave instructions principally through greatly expanded explanatory remarks about each account listed in the uniform system.

JOSEPH A.
PIACITELLI
STUDIES
OPERATIONS

Fortunately, the Administrator had wisely employed an industrial engineer at the beginning of the program to make a continuous study of the finance activities of the REA and recommend improvements in procedure. This engineer, Jos. A. Piacitelli,

was extremely energetic in the performance of his duties and rendered invaluable service over the years to 1941, when he submitted his final report and recommendations on the organization of the Finance Division as such.

Mr. Piacitelli was the sparkplug of many of the procedural revisions which resulted in greater efficiency in all phases of the Finance Division work and it is pleasing to note that his efforts did not go unsung. The files reveal frequent references by his colleagues to the assistance given by Mr. Piacitelli.

PREWAR ACTIVITIES

REA BECOMES A PART OF THE DEPARTMENT OF AGRICULTURE

remain in the hands of the REA Administrator under the general supervision of the Secretary of Agriculture.

ACCUMULATED BUDGETS FOR LOAN FUNDS vs ALLOTMENT OR SECTIONAL BUDGETS

HARRY SLATTERY SUCCEEDS JOHN CARMODY AS ADMINISTRATOR

operations to expand at great speed; and now it was Slattery's job to consolidate the gains and formalize procedures which were to carry the organization through the next five years.

TAX PROBLEMS OF COOPERATIVES

assistance given to REA-financed cooperatives relative to local tax matters. The writer suggested to the Administrator that the twelve federal Banks, for Cooperatives, which were part of the Federal Farm Credit System, be called upon to furnish tax advice to the REA borrowers. Mr. V. D. Nicholson, General Counsel of REA, argued that statewide cooperatives should be formed to do this work. The record of events appears to indicate that neither of these suggestions was carried out.

NEW PROCEDURES FOR REQUISITIONING AND ACCOUNTING FOR LOAN FUNDS

Many changes were considered, and in 1939 supplies of the new forms were beginning to go forward to the borrowers.

The improved procedure consisted of Forms FI-121, which explained each step to be taken when requisitioning and/or accounting for loan funds, FI-121-A, Financial Requirement Statement, FI-121-B, Expenditure Report, and EX-27R, Project Budget.

BORROWERS'
REACTION TO
NEW PROCEDURE

Though a few years had passed, borrowers' personnel and REA personnel were still growing up together and it is refreshing to learn that the diligent efforts of the Washington office were recognized. Such recognition is reflected by the following excerpt from a borrower's letter:

"This new method in our opinion is a really distinctive improvement. All necessary forms are self-explanatory and no project superintendent should experience any difficulty in requisitioning funds and preparing expenditures. This new method should also simplify the procedure in your office and of course make it possible to eliminate a great many delays that no doubt have been experienced in the past."

CO-ORDINATION
OF THE FINANCE
AND OPERATIONS
DIVISIONS

Because it was, from the outset, difficult to determine exactly where the duties of the Finance Division left off and those of the Cooperatives' Operations Division began, there was always a problem of co-ordinating the work of the two divisions. Mention

was made of this matter as early as April 12, 1941, in a memorandum from the Finance Division to Deputy Administrator Craig in which it was said:

"Problems will naturally continue to arise in which both the Cooperatives' Operations and the Finance Division are jointly interested. I believe that it would be well to organize a committee through which such matters can flow....."

The committee plan was tried in later years, with some success, but no one felt that the problem was substantially solved until 1950, when Administrative Bulletins clearly outlined the separate functions of the Finance and Management Divisions.

\$300,000,000
ADVANCED TO
BORROWERS

Deputy Administrator Robert B. Craig wrote to the author of this history as follows, on July 22, 1941:

"It is always a pleasure to record progress. I note as of July 19 we passed the three hundred million mark in advances. Congratulations to you and your staff."

ACCUMULATED
INTEREST

In April 1940 the Administrator disapproved a suggestion that there be eliminated from the accounting records any evidence of the accrual of interest during the deferred period of loans when interest is accumulated subject to later amortization. Mr. Nicholson had sought to lessen the expenses to be recorded in the early stages of a cooperative's life, but the writer pointed out that this would violate good accounting procedure.

FRANCIS R. POORE
BECOMES ASSISTANT
CHIEF OF THE
FINANCE DIVISION

On June 12, 1941, Administrator Slattery announced the appointment of Francis R. Poore as assistant chief of the Finance Division. He continued in this capacity until January, 1942, when he transferred to another agency.

ORGANIZATION
OF THE DIVISION
IN THE PREWAR
PERIOD

It may be of interest to review briefly the organizational structure of the Finance Division as it existed in the period from the middle of 1939 to March, 1942, together with its principal functions and key personnel.

DIVISION CHIEF
AND ASSISTANTS

The writer was the Chief of the Division throughout this period, and the others mentioned held their respective positions for at least a portion of that time. As mentioned previously, Mr. Poore was Assistant Chief. In the Office of the Chief, Reba P. Eberts was a junior administrative assistant and Messrs. John J. Cahill and H. D. Waterhouse were principal examiners. Lorraine Disch and Gladys Murphy did the typing.

The principal activities of the Office of the Chief were: To direct activities pertaining to financial status of borrowers and depositories; control and approval of advances and expenditures; installation and audit of borrowers' accounts and other financial aspects of REA relations with RFC and borrowers.

BANK AND FINANCE
EXAMINING SECTION

George T. Gilleland headed the section which supervised the examination of the utility borrowers and of all banks used as depositories by borrowers.

This section also made inquiry into the financial responsibility of officers selected by cooperatives and gave general banking advice to borrowers.

ACCOUNTING
SECTION

Robert R. Couse was the head of the Accounting Section, which maintained the REA official loan documents, collected payments due from borrowers, and examined installation loan documents. This section had three operating units to handle collections, bookkeeping, and installation loans. Mr. Couse was assisted by Paul F. Hart, Ernest Stefan, Myrtle Gray, and Martha Nauer, among others.

FIELD AUDIT
SECTION

The Field Audit Section had the responsibility for installation, maintenance and auditing of borrowers' records and preparing necessary reports. R. V. Hannah was the head of this section and William J. Early was the assistant head. Some of the audit report reviewers working in this section at that time were: F. L. Crowley, J. E. Perry, H. A. Sarle, J. A. Tatro, and Elmer White. Albert Zitmore was special accountant and Marie Keough and Mary Pritchett were associate project auditors.

Although the field audit staff was not officially on a regional basis, it was deployed in general by districts which coincided with the regions as established for other divisions of REA. Each district had an audit supervisor and an average of seven project auditors. The supervisors in the various districts (regions) from 1 to 10 were, in order, as follows:

George Moore, Floyd Kneisly, Hubert Wales, E. R. Kipp, J. A. Ruedi, W. W. Walter, Frank Helring, J. H. O'Brien, and John W. Scott.

Field auditors of those days who later achieved prominence in the division and in REA in general included: J. A. Tierney, D. W. Baker, Stephen Hotsko, W. B. Dean, E. A. Poole, L. L. Beatty, J. J. Murphy, H. H. Shipp, D. A. Coffield, Percy H. Keneipp, Russell Wade, W. B. Loving, Frederic Hamlin, H. M. Buchanan, J. H. Rubenstein, Samuel Gellis, W. S. Bolton, and H. J. Froehner.

It is sad to relate that Percy H. Keneipp, one of the best loved members of the above group, was instantly killed on the night of October 8, 1950, when struck by an automobile on the highway near his home in Fairfax County, Virginia.

CONSTRUCTION FUNDS
CONTROL SECTION

This section was responsible for the development and application of appropriate controls over all funds allotted by REA to individual borrowers to assure

the maximum system development within the funds allotted. It worked principally with the budgets established for funds loaned to borrowers. H. O. Hinson was the head of the section and R. H. Robinson performed the statistical work for the section as a whole.

Under this section were three units. Wesley Giles headed the Cost Analysis Unit for a time, Hubert Moore was in charge of the Budget Control Unit, and H. F. Sanders was head of the Work Order and Service Entrance Unit.

PROJECT VOUCHER
AUDIT SECTION

This important section was responsible for reviewing requisitions for funds and reports of their expenditures and for examination of the closing documents

supporting construction costs and final payment thereof. F. Allen Vardy was in charge of the section, and his subordinates included Jeanette Andring and Ralph R. Chesley. There were two examining units in the section, one headed by W. M. Giles and the other by Emil Otto.

Through the efforts of the writer, Mr. Chamberlin, Mr. Vardy, Mr. Asher, Mr. Giles, Mr. Otto, and others, the efficiency of this section had been steadily increasing from inception, and it made itself felt throughout the organization and the REA program. In recognition of the achievements of the section at the start of the immediate prewar period, Mr. Robert B. Craig, later Deputy Administrator, wrote as follows to the Chief of the Division and his staff:

"Your report of the work of this section for August (1939) deserves commendation. I cannot let the opportunity pass without saying thanks to you and your associates on the part of the whole organization. I gaze with great pleasure on the weekly graph showing your progress."

RECONCILING
EXPENDITURE
REPORTS WITH
DISBURSEMENTS

It was very early disclosed by field audits that the borrowers' records of disbursements frequently did not tie in with their reports to REA of expenditures made. Usually, these discrepancies occurred through errors made in allocating charges between budget items, but the problem of reconciling expenditure reports with disbursement registers remained formidable for many years. A good share of the auditing time was devoted to determination of adjustments to be made, and not infrequently, adjustments made by auditors were rejected by the REA office because of circumstances which were not known to the auditor when he did the work.

PERFORMANCE
CHARTS

For several months during 1941, representatives of the division collaborated with the consulting industrial engineer in the development of a series of charts designed for use in quickly evaluating the performance of the various sections of the division. Starting with November of that year, the charts were used to show the performance being reviewed in the monthly progress report made to the Deputy Administrator.

MANPOWER
PROBLEMS.

Illustrative of the problems arising from a constant shortage of personnel during the prewar period is the writer's report to the Administrator dated October 26, 1939, in which it was pointed out that there were only 41 auditors in the field, despite the need for 77, and that the division was almost 1,000 audits in arrears with respect to a program of yearly audits for all borrowers. This is one of the reasons why the division was forced to keep up the pressure in the performance of its work and to demand the utmost in effort from its employees. It very early gained a reputation for hard work and has held it to this day.

In fact, so determined were the efforts of the divisional supervisors and employees, under the writer's leadership, that on December 11, 1941, about one year after the submission of the above report, the Deputy Administrator wrote as follows regarding a Finance Division progress report: "This is a fine report and reflects great credit on the direction of the division."

THE WAR YEARS

THE MOVE TO ST. LOUIS

In 1941, consideration began to be given to the proposition of moving non-defense agencies out of Washington to make room for activities relating more directly to the war in Europe. As early as June of that year a rumor spread throughout REA that the agency would be transferred to Chicago. But nothing definite on the transfer to any particular location was known until December, when the President issued an order that REA be moved to St. Louis.

Great was the confusion from that time forward until all units of the agency, with the depleted staffs which agreed to move, had been safely ensconced in the Boatmen's Bank Building in St. Louis. Most of the move was carried out in March, 1942.

About forty of the Finance Division employees decided to stay in Washington and look for other jobs, so the division was seriously understaffed for a long time in its new home. Some of the units found it necessary, for a period, to require considerable overtime work on the part of their employees.

THE DEBT SERVICE REPORT

The move to St. Louis, with its attendant shortages of personnel, brought about a review of the routine reports prepared by the Finance Division to determine which might be eliminated. Among those thus reviewed was the monthly report on the status of advances and repayments of funds loaned by REA. Although this report was less comprehensive in those days than it later became, it had already become of great importance. When, in January 1942, it was suggested that this report might be eliminated, Deputy Administrator Craig stated to the writer that he would rather be deprived of every other report made by the division than to lose this one.

Accordingly, the debt service report was retained and, during the next few years, was changed to a quarterly report and expanded and improved to show all phases of the loan fund situation by borrowers, by states, and by regions. It became not only an ever-present aid to the staff of REA but was also constantly scrutinized in Congress, as it told in statistical form the unfolding story of the REA program. Throughout the writer's tenure as chief of the division, first priority was given at the end of each quarter to the accurate compilation and duplication of this report.

FIELD AUDIT SECTION UNDER NEW LEAD

The resignation of Mr. R. V. Hannah as Head of the Field Audit Section on July 1, 1942, really marked the end of an era. Although the section continued for a few months under the direction of Mr. W. J. Early, there were already signs pointing toward a complete redistribution of field audit responsibilities.

BOOKKEEPERS' CONFERENCES

In seeking to overcome the difficulties arising from personnel shortages on the REA audit staff and in the borrowers' offices, it was early decided to hold annual bookkeepers' conferences or "schools" in the various states. The schools were designed to give training in accounting and also to inculcate a better understanding of the broader aspects of the REA program. Finance Division field auditors were usually placed in charge of the meetings and the Information Division furnished speakers on the broader aspects of the program. These conferences proved to be very successful and continued to be held in ever greater numbers until the war caused REA to discontinue sponsoring them. They were later resumed, to a degree, under the sponsorship of statewide cooperative associations.

THE DIVISION REVIEWS OPERATING REPORTS

The function of REA review of borrowers' monthly statistical and financial reports led a rather nomadic existence during the war years. In September, 1942, the reviewing unit was transferred bodily from the General Statistics Section of the then Management Division (later Administrative Services Division) to the Finance Division. Shortly after the close of the war the operating report review function was moved once again, this time to Management Division (formerly Cooperatives' Operations Division).

THE DIVISION DOES ITS PART IN THE WAR EFFORT

The Finance Division entered whole-heartedly into the war effort. It achieved great success in putting across bond drives and scrap material drives and in inculcating a spirit of sacrifice among its employees. One testimonial is found in the memorandum from Administrator Harry Slattery to the Chief of the Division under date of January 12, 1943, which reads, in part, as follows:

"At this first opportunity I want to send this personal note to congratulate you upon the way you have handled the Finance Division and the fine spirit that you have installed into your staff along the lines of the war effort. Your memorandum of January 2 is one of the finest I have seen and I will talk to you later about it."

The memorandum alluded to was one in which the author of this history set forth in detail a proposal for REA-financed cooperatives to establish and operate a farmers' cooperative food project to provide more essential foods for a world at war.

REORGANIZATION OF THE FINANCE DIVISION ON A REGIONAL BASIS

Prior to 1943, the Finance Division (unlike the other REA divisions dealing directly with borrowers) had not been regionalized. The field staff operated on a countrywide basis under a field audit section head, whereas the work of the headquarters office was carried out partially on a national basis and partially on a loose regional basis. Complete field supervision could not be maintained and co-ordination of the various divisional activities, one with another and with those of other divisions, was difficult to achieve. The existing organization suggested limited service or staff functions, whereas the

division was actually functioning as an operating or line division in every stage of relationship with REA borrowers. It provided little opportunity for flexibility in the assignment of personnel to activities in line with workload demands; and the separation of functions between sections caused field representatives to be unable to state definitely to borrowers how matters would be handled in all cases. The evident need was for a re-organization which would centralize responsibility for all line functions of the division in one man in each region and enable the division to deal more effectively with problems requiring all-inclusive familiarity within each region.

Throughout the latter half of 1942, the administrative staff of the Finance Division, assisted by the Administrator's consultants, developed a complete plan for reorganizing the division along regional lines. This plan was presented to the Department of Agriculture with justification in the form of definite advantages in relation to responsibility and work-flow to be gained by its adoption. Approval was given, and in February 1943, the regionalization of the division was effected quickly and with little commotion. Ten regional offices were organized and staffed with both departmental and field employees. Later in the year all sections were abolished and their functions transferred to the regional offices, with the exception of the loan recording section which was retained as a unit because of the scarcity of bookkeeping machines.

The reorganization of the Finance Division completed the regionalization of the REA "line" divisions, thus co-ordinating for each of the regional areas the functions of loan processing, construction engineering, financing and accounting, and management. The "follow-through" with respect to all of these functions was accelerated. The regionalization served to fix responsibility, both in the office and in the field. Employees began taking greater interest in the borrowers in their own regions, and regional loyalties developed which engendered effort on the part of all concerned to keep each region in the forefront of progress. The flow of authority within each region was much more clearly defined than that existing under the old plan, and the regional coordination was particularly evident in the production of audits in accordance with a well-developed program to provide audit service on a regularly recurring basis for each of the borrowers. The incorporation of the sections of the division within the regions facilitated the performance of all work pertaining to the borrowers. It enabled the personnel of the division to become more familiar with the entire range of field problems, thus promoting the efficiency of the organization and, through automatic in-service training, developed personnel better able to carry on the work of the division. The personnel of REA borrowers expressed great satisfaction with the regional organization, pointing out that they could now deal directly with the same individuals at all times, enabling them to know and understand the agency's employees who worked with them on mutual problems.

FIRST
REGIONAL
HEADS

Upon reorganization of the Finance Division on a regional basis, completed in February 1943, the following had the honor of serving as the first regional heads. They are listed by regions:

1. W. J. Early	5. Joseph Lodato	8. Frank Helring
2. Floyd Kneisly	6. William Dean	9. J. H. O'Brien
3. Hubert Wales	7. L. L. Beatty	10. H. H. Shipp
4. W. W. Walter		

INSTRUCTION
OF REGIONAL
HEADS AND
ASSISTANTS

The writer was always a great believer in the necessity for continuous development of the capabilities of his staff members and himself. Not only did he want each one to become complete master of his own field of work, but he wished him to grow in stature in the matter of all-round ability and background knowledge. Accordingly, in February 1943, he arranged a course of instruction for the new regional heads, administrative assistants, and accounting clerks to give them an opportunity to learn more thoroughly the duties assigned them under the regional plan and to increase their general knowledge of the division's work.

This provision for further schooling of his staff was typical of the many, many succeeding efforts on his part to help his associates pull themselves up by their own bootstraps in order to make the most of their innate abilities and to become competent representatives of the Finance Division.

UTILIZING
POTENTIALITIES

No one in a responsible position in the Finance Division was allowed to rest on his oars and drift with the tide. Such waste of human resources was not compatible with the writer's view of life. The division did not at any time have a surplus of personnel and most of the time was shorthanded. The Chief sought to overcome this handicap by utilizing the talents and abilities of every staff member, not only to keep the routine work current but to enable the division to grow in importance, render ever-greater service and explore all fields in which it might have something to offer the Administration in the way of ideas or effort. His memorandum of February 17, 1943, on the matter of special assignments illustrates the action he so often took to implement the policy above stated. It is quoted, in part, as follows:

"Attached is a list of Special Assignments for Regional Heads and Assistants in my office. All of these subjects present special problems which naturally affect the program generally and the Finance Division specifically. For this reason it is essential that currently changing conditions require a review of trends, policies, procedures, also standardization and improvement from time to time to meet changing conditions and thereby achieve the desired results from the Finance Division viewpoint. These are standing assignments which require alertness at all times.

"You are to make special studies and conduct any necessary research in the office and field to become qualified as a specialist or consultant in the particular subjects assigned. Be prepared at all times, especially at staff conferences, to report on these subjects. Should you discover information which might necessitate changes in procedure or be of particular interest to the program generally, please prepare a memorandum to Regional Heads, Field Auditors and Systems, as the case may be, for the signature of the writer."

Some of the subjects on which specialized learning of separate individuals was requested were: acquisitions, taxes and insurance, bookkeeping schools, auditing methods, work orders, and operating reports.

BILLING AND
COLLECTION
MANUAL

In March 1943, the Loan Accounts Section prepared a Billing and Collection Manual. This was the first publication containing all necessary instructions and information regarding interest, the application of payments, and the terms and procedures used in that section.

FIRST SAMPLE
AUDIT REPORT

Although the field staff had been furnished from the start with some auditing aids, it had not, prior to 1943, been supplied with samples of a standard narrative audit report. After REA began furnishing borrowers with copies of audit reports (early in 1942) it became apparent that some standard form of report was needed in order to bring about uniformity in the presentation of audit findings and the comparability of data presented. Therefore, the division set to work to develop such a standard report, and on April 12, 1943, it was transmitted, with covering memorandum, to all field auditors.

The sample report referred to the "None Such Electric Cooperative" and included a sample transmittal letter to borrowers; a standard narrative report or comments, with auditor's certificate; and examples of the balance sheet and schedules and the statement of revenue and expense. The basic format and style of this report were carried over to revised standard reports issued in succeeding years.

DIVISIONAL
MEMORANDA

Prior to 1943 internal memoranda of the division were not identified by any kind of numbering system, although memoranda for borrowers were called Finance Division Bulletins and given identifying numbers in series. In the early months of 1943 Milton Thurber, Assistant to the Chief, was assigned the task of developing a system of numbering memoranda and of bringing previously issued items up to date. After considerable labor on his part, with some assistance from others, the job was done. It resulted in a series of memoranda for internal office use designated as "Regional Office" or "RO" memoranda and a series for the field staff designated as "Regional Field" or "RF" memoranda. However, the change in designation of memoranda issued to borrowers was not completed until two years later.

The first RO memorandum was issued on February 3, 1943, and dealt with the subject of Requisitions and Expenditure Reports. The first RF memorandum was dated March 12, 1943, and discussed the subject of Identification Cards. On March 1, 1945, was issued the first memorandum in the new "System Letter" or "SL" series for borrowers. Its subject was: "Amended Instructions for Preparing Monthly Report."

PLANT
ACCOUNTING
PROCEDURES

Because of the detailed nature of the construction assembly units recommended by REA, it was difficult to devise a system of continuing property records which would meet the needs of REA borrowers.

However, during most of 1943 a committee under the direction of Hubert Wales, regional head, labored on the project. Toward the end of the summer, a manual of plant accounting procedures was mimeographed and made available to borrowers, together with some sample work sheets.

The new manual provided for standard types of subsidiary ledger sheets to utilize both individual and mass units of property to tie into the values reflected by the general ledger. The division proposed to have its field staff install the system for a few borrowers as examples for the others and this was carried out to some extent. However, because of the wartime personnel shortages and the complicated nature of the plant-unit procedures, few borrowers installed the records.

REA
ACCOUNTING
COURSE

Many factors developed over the years which impelled the Finance Division to prepare an accounting or bookkeeping course dealing primarily with the type of accounting used by REA borrowers. For a time, employees of other divisions had been requesting some type of elementary course which would help them understand the borrowers' accounting system. In addition, the increasing rate of turnover among borrowers' office personnel as a result of the war made such a course a necessity in order that qualified personnel might be available.

The first effort resulted in the completion early in 1943 of a book called a Digest of Accounting Practices Followed by REA Cooperatives. This publication was the outcome of work performed principally by William Dean, Fred Rinaca, and Erma Hoffman of the Finance Division and of Dr. Jack Levin, Allyn Walters, and Dale Etter of the REA staff outside the division.

Soon afterward, it was decided that the book should be revised, expanded to include both basic accounting and REA accounting, and made into a correspondence course for the use of borrowers' personnel. Several of the regional heads, and others, set to work preparing material for the course. Early in 1944, Field Auditor Kermit Culver was called into the St. Louis office and given a small staff to assist him in adding the finishing touches to the course and in placing it in final form in readiness for the inauguration of the correspondence activity. This work was completed about the end of April 1944, and the first lessons were mailed out soon afterward.

The success of the accounting course as an activity of the division was almost phenomenal. By the January following its inauguration, there were 585 students enrolled. By 1950 the annual additional enrollment was approaching 500 from among borrowers' representatives alone and about 70 certificates of proficiency were being issued yearly to such field students. The course was a standard requirement for employees in some of the other divisions and nearly all new operating employees of REA took the course. Moreover, several schools and universities adopted the course and made it an important part of their curricula.

FIRST
FIELD AUDIT
PROCEDURES

Early in the history of the Finance Division, consideration was given to a continuing development of well-organized procedures to be utilized by the field staff in conducting audits of borrowers' records. Every year or two a new group of instructions was developed and issued to the field auditors. Each issue, through No. 4 (dated November 30, 1942), was independent of the others. However, in April 1944, there was issued Audit Procedure No. 5, which was a consolidation and revision of the four preceding issues. This was the last of this particular series of audit procedures and it covered such subjects as: Conduct and Authority of Auditor; Policy on Co-operation with Other Divisions; Handling of Refunds and Prepayments; Closing Out Projects; Working Papers in Audit Reports; Journal Entries; Information in Audit Comments; Proof of Loss Procedure; Replacements; Relocations; Acquisitions; Suspense Accounts; and Depreciation.

In addition to the instructions found in the above-described bulletins, each field representative was provided with a folder containing such auditing aids as samples of important working papers, copies of Finance Division bulletins on field subjects, sample journal entries, and samples of many bookkeeping forms in use by the borrowers.

EXHIBITS "F",
"G" AND "H"

For a period extending from well before World War II until about three years after the end of the conflict, the field auditors had as their constant companions and tormentors Exhibits "F", "G" and "H". Exhibit "F" was a working paper designed to reconcile the advances of funds with the disbursements, and Exhibit "H" was used to reconcile the reported expenditures with the borrower's disbursements. Exhibit "G" became a byword in the field, since it was a working paper on which every expenditure of loan funds had to be listed by check number, purpose, payee, and budget purpose. Sometimes the exhibit ran to dozens of pages on which were listed thousands of individual expenditures. Even though such exhibits involved much time and labor in preparation, it appears evident that the detailed study thus made of construction activities during the early-growing stages of the cooperatives did much to insure that items were handled properly, either originally or by adjustment, and that the later records of REA borrowers were based upon a sound beginning.

STEP-BY-STEP PROCEDURES

In the Finance Division, "uniformity" had long been the key word in the Chief's office in the control of the daily work of the division. In the summer of 1944, committees of regional heads and their associates worked diligently to develop a set of instructions for each major operation in the division, as an aid to achievement of uniformity. In September of that year, the writer was enabled to report to the Administrator the improvement represented by the establishment of detailed step-by-step procedures for: audit report review and analysis; processing of loan budget adjustments; processing of requisitions for loan funds; processing of expenditure reports; processing of bank approvals; review and analysis of operating reports; review, analysis and approval of final work orders; and assignment of audits and maintenance of assignment records.

Additions to and revisions of these procedures continued for some time, and finally, about 1946, the procedures were incorporated as part of the broader functional manual of the division. Incidentally, this functional manual was expanded and revised in 1950, so as to show major functions, activities thereunder, and detailed procedures for every unit of the division.

LEADERSHIP IN THE DIVISION

How was the Finance Division enabled to accomplish so much that it often received praise from the Office of the Administrator? What made it the coordinated unit that it was, with a drive unsurpassed, and a will to win? It appears that these questions are answered by a review of the quality of leadership contributed by the key personnel of the division.

The writer, being a management specialist, as well as an accountant, believed strongly in scientific management and especially in that phase of it concerned with development of efficient administration and supervision. He sought to attain facility in organization and in the invention of successful strategy. His efforts were directed especially toward keeping the organization active and in swift pursuit of its objectives. Illustrative of his methods of keeping the division on its toes and in causing his lieutenants to exert ever-greater effort toward self-improvement was the series of questions propounded to the regional heads by means of his memorandum dated August 10, 1944, on the subject of, "Progress Since Inauguration of the Regional Plan." There follow quotations from his memorandum and from the eighteen questions asked:

"You will remember that emphasis has repeatedly been placed on one of the major advantages which the regional plan affords; namely, that the regional heads and their staffs are placed in a position whereby growth and progress are possible, and old ideas regarding your work must be swept aside and replaced by a more elastic or all-inclusive attitude toward the work. Stated differently, we ought to know whether the opportunity for accomplishment has been observed and followed to greater heights, or whether you are still shackled to the former level by antiquated adverse reasoning.....

"What benefits have been realized by you up to this time or do you believe that you have remained at just about the same point where you were as of February 1, 1943?

"Have you kept abreast of the times in your specialized work so that you will not only be able to utilize the benefits of modernized thought in your own efforts but also be able to appreciate the value of up-to-date offerings made by others?

"Have you fully realized the need of knowing the practical principles of management as applied to the directing of work in your region?

"Have you realized by this time that the higher the position in rank or responsibility which must be shouldered, the greater need for liberality and a better understanding of the other fellow's problems and viewpoint?

"Have you completely fulfilled your duty with reference to the personnel in your region by keeping them well informed of the work they should do and by helping to create an atmosphere of good fellowship and contentment by emphasizing and appreciating the good that was done while calling attention to the improper actions which detracted from the standing of your region?

"Have you cultivated individuals in other divisions having positions comparable to your own to see what could be done toward establishing a more harmonious relationship, and to facilitate actual disposition of problems in which all of you are interested?"

ST. LOUISANS
PREDOMINATE

Before the removal of REA to St. Louis, most of the states were well represented among the employees of the agency. However, as the many vacancies resulting from the war and from the move itself were filled, persons from the St. Louis area gradually achieved a majority, because the local civil service rolls were utilized principally and because many jobs were not subject to civil service rules during the war emergency.

THE PACT ACT

Title V of the Department of Agriculture Organic Act of 1944 (also called the Pact Act) became effective September 21, 1944. It provided for a reduction to two percent of the interest rate on all REA loans and permitted the Administrator to set a maturity date for such loans not exceeding 35 years from the date of the loan.

The Loan Accounts personnel had many problems to contend with in making the changeover. Refunding notes had to be developed by the Solicitor's Office, with the aid of Finance Division data, to extend the maturity dates for loans made previously. Most of the old notes had a 30-month

interest accumulation period and provided four years in which to get total funds advanced. The notes following the Pace Act carried either two or five year accumulation periods and the period for advances coincided therewith. Amortization payments on new or refunding notes remained constant whereas they varied with respect to old notes.

FIRST COMPLETE
ACCOUNTING
MANUAL FOR
REFRIGERATION
PLANTS

Under Section 5 of the Rural Electrification Act of 1936, the REA had been making loans for the construction of refrigeration plants in which individual frozen-food lockers could be rented by consumers, usually members of the cooperatives owning the plants. The first complete manual containing a uniform system of accounts for such locker plants went into effect as of October 1944. Henry Shipp, Head of Region 10, Finance Division, was principally responsible for the accounting recommendations embodied in the mimeographed manual. In addition to a chart of accounts, with explanations, the manual contained samples of recommended locker plant forms, such as cash-record sheets, locker rental schedules, plant orders, patrons' inventories, and membership records.

DEPRECIATION

No phase of REA's work in which the Finance Division was primarily interested was more controversial than was the subject of depreciation of borrowers' physical properties. Few of the borrowers established any depreciation reserve at all prior to 1941. Then, for two years, they followed REA recommendations to depreciate distribution plant at 3% per annum and deduct maintenance therefrom. The same procedure was followed in 1943, but at the end of that year REA requested that they recompute the depreciation for the year as a charge in addition to maintenance costs.

In December 1944, REA issued a complete depreciation manual, effective January 1, 1944, in which the average rate on distribution plant was established at 3.48%. Thus, an adjustment had to be made for 1944 to place the computations for that year on a new basis. Lloyd Beatty of the Finance Division was responsible for a large share of the work on this new manual. It remained in effect without revision through 1950. It is interesting to note that in November 1946, the borrowers were once again asked to make a major depreciation adjustment. This requirement was that depreciation be recomputed on the manual rates from energization dates through 1943.

SECOND
REVISION OF
ACCOUNTING
MANUAL

Early in 1944, a committee within the division began work on a new edition of the REA Uniform System of Accounts. Although there were no major revisions, the detailed work required considerable time; so, it was not until December that the manual was made available to borrowers, the effective date being January 1, 1945. This publication contained a foreword on the value of good records and, in addition, sections devoted to general instructions and to definitions. This manual was mimeographed, as its predecessors had been.

JOB METHODSTRAININGPROGRAM

In February 1945, there was started in REA a program which was suited to the Finance Division as is water to a duck. Dr. E. R. Draheim of the USDA Office of Personnel, Division of Training, arrived in St. Louis

and gave instructions to one or two persons from each division on work improvement techniques. These persons then conducted schools for all the other employees in their respective divisions, and each employee was asked to prepare and present an improvement suggestion for his own job or any other. In the Finance Division a dozen classes were formed and the instructions continued until April. A total of 109 employees completed the course and were certified. The number of suggested improvements processed by the division was much greater than in any other division. In fact, some 60 to 70 percent of the total suggestions came from the Finance Division.

Throughout the latter half of 1945 there were issued 22 memoranda, each establishing a JMT proposal as an official procedure of the division. During that year the letters, "JMT", were as familiar as, "USA." The division literally lived the job-improvement campaign, and this effort paid dividends not only in the form of better procedures but also in the matter of increased understanding of their work on the part of the employees.

QUARTERLY
BILLINGS

Although not bound by the loan documents to do so, REA had always followed a practice of furnishing its borrowers with regular statements of interest and

principal due or accumulated. Such statements had been rendered on a monthly basis and payments received accordingly. However, this resulted in peak workloads of loan accounts activities during a portion of each month and a slackening off at other times.

To remedy this situation, the borrowers were notified in April 1945, that henceforth billings and payments of amounts due were to be on a quarterly basis. In addition, specific months within quarters were varied for different states, so that the work flow remained more nearly constant. Some borrowers objected to this change at first, and continued to remit monthly, but eventually the new procedure was almost universally adopted. It, of course, required that the borrowers accrue monthly accumulations of interest and also set up proportionate amounts of cash in reserve for quarterly payment of indebtedness.

STATUS OF
ADVANCES AT
END OF
TEN YEARS

As of June 30, 1945, the REA had been in operation slightly over ten years. At that date, the record showed that the Finance Division and its predecessor unit had processed and approved requisitions for funds in the total amount of \$427,366,738.22. This

represented an amazing ten-fold increase in total advances as compared with the \$40,000,000 total on which Administrator Carmody had commended the writer just seven years earlier. Naturally, the curtailment of construction during the war prevented the advances from reaching a truly astounding figure in that time.

W. J. EARLY
RESIGNS

In July 1945, the Finance Division employees gathered together to bid farewell to a man who was beloved by many of them, certainly by all who had worked under his supervision. William J. Early had been the head of the Field Audit Section just prior to the regionalization of the division and had then been named head of Region 1. Extremely loyal to the superiors under whom he had worked and very close to his own staff, he had become a leader in REA. When he resigned in order to take a position with the General Accounting Office in Washington, his loss was keenly felt. He had done much with respect to the correspondence course, acquisition accounting procedures, annual bookkeepers' conferences, job descriptions for Finance Division personnel, travel orders and budgets, annual administrative budgets, auditing procedures, and accounting manuals.

CLAUDE R. WICKARD
BECOMES
ADMINISTRATOR

On July 2, 1945, Claude R. Wickard, former Secretary of Agriculture, assumed his duties as Administrator of REA, succeeding Harry Slattery. William J. Neal had been Acting Administrator for a period following Mr. Slattery's resignation. To mark this happy occasion on which a man of Mr. Wickard's stature took over the helm of the organization, the Finance Division Chief wrote as follows to his staff:

"As you know, Mr. Claude R. Wickard assumes his duties as Administrator of REA today and comes to our organization with a rich background of experience in the administration of the Department of Agriculture activities. We wish to express to the new Administrator our desire to cooperate whole-heartedly in the constructive program we are sure he will undertake for the benefit of the administration and the rural electrification movement.

"We are proud of the record of service achieved by our division and we are confident that all members of our staff will continue to give their best to the development of the organization and to the widening of its field of usefulness to the people of rural America. We are likewise sure all members of the Finance Division will join in strong support and cooperation with Mr. Wickard as Administrator of REA.

"It is with genuine appreciation of his achievements in the Department of Agriculture as a whole that we welcome Mr. Wickard as our new Administrator, and we wish for him even greater success in the work he is now beginning."

WORK ORDER
PROCEDURE

One of the thorniest problems existing throughout the first fifteen years of REA's existence was to achieve accurate, current, and uniform documentation of borrowers' construction and retirement of plant. The documents utilized were called work orders, and they were tinkered with from time to time in an effort to improve their workability. Essentially, they were forms designed for listing, by construction assembly-unit and dollar amount, the items going into or out of plant in any construction or retirement.

Although the forms kept evolving into new forms as time went on, the fundamental and basic change did not go into effect until September 30, 1945. It was early in 1944 that a subcommittee of the Administrative Policy Advisory Committee began working on a revision of the work order procedure to supersede that set forth in Finance Division Bulletins Nos. 12 and 12-A, both dating from 1941. By November 1944, the subcommittee had become convinced that the separate reporting of individual construction and retirement jobs was too cumbersome. It recommended that the borrowers be permitted to submit a periodic inventory of work completed, in lieu of the final work orders. In line with this suggestion, the Finance Division drafted forms for an estimate work order, an inventory of work completed by force account, and a tabulation of staking sheets.

Another innovation in the developing procedure was the use of standard cost cards to translate actual costs gathered on a material and labor and overhead basis into assembly-unit costs. The whole procedure was gradually worked up during the following year, with D. W. Baker and Lewis Marsh of the Finance Division doing most of the detailed work of preparing samples of all the schedules and composing the instructions.

During the months immediately following issuance of the new work order manual as of September 30, 1945, Finance Division auditors and other representatives conducted training meetings of borrowers' personnel throughout the United States to insure the greatest possible compliance with its provisions.

So successful was the new procedure in meeting the requirement of the borrowers and of REA that it was not until 1950 that the need for any revisions began to become strongly evident.

THE POSTWAR ERA

THE RETURN TO WASHINGTON

On August 14, 1945, word reached the United States that Japan had surrendered and that, at last, World War II had come to an end on all the world's battlefronts. Following a period of wild rejoicing, people began planning a peacetime existence. This was also true of the agencies of government. In September came the news that the national office of REA would return to Washington.

As early as November, units of the REA began leaving St. Louis and by the end of January 1946, nearly all were once again located in the capital city, this time in the buildings of the U. S. Department of Agriculture, south of the Mall. The Finance Division made the move in January and established itself on the second floor in the southeast section of the USDA South Building.

The immediate loss of personnel as a result of the move was not very great, but as time went on, more and more St. Louisans left the organization to return to the Midwest. However, there was little difficulty in employing replacements for the office staff.

REGISTRATION OF REQUISITIONS AND EXPENDITURE REPORTS IN REGIONAL OFFICES

Beginning the first of January 1946, all requisitions and expenditure reports were assembled and registered by the respective regions, in lieu of the previous method whereby they were all submitted to a central location and there assembled and registered. A regional numerical sequence was substituted for the previous divisional numerical sequence under which the reports were numbered.

ANNUAL FIELD CONFERENCES

Although, of course, field conferences had been held in the past, it was in May 1946, that the first series of what came to be annual conferences was held for the benefit of the REA field people throughout the country.

Three conferences were held that month - at Chicago, Illinois, Amarillo, Texas, and Cave City, Kentucky. The Administrator inaugurated a policy of attending each conference himself and taking heed of the suggestions and "gripes" of the field staff.

In the Finance Division portion of these meetings, the principal subjects discussed that year were: depreciation adjustments, the Capital Credits Plan, billings and collections, audits, progress of adoption of the new work order procedure, and the REA Correspondence Accounting Course.

THE CAPITAL CREDITS PLAN

As previously mentioned, the Capital Credits Plan was one of the principal subjects discussed at the field conferences of 1946. In fact, it was one of the top subjects of interest in REA throughout the year and in the Finance Division for much longer. Although nearly all REA borrowers were cooperatives, organized on a non-profit basis, no plan had previously been devised by which the true status of the cooperatives' capital could be reflected on the books of account. Through the collaboration of the Finance Division and the Solicitor's Office, such a plan was introduced in 1946 and called the Capital Credits Plan. Essentially, it provided that all receipts of a cooperative in excess of the cost of service for any year were to be considered as capital paid in by patrons and were to be established on the books and in subsidiary ledgers to the credit of the individual patrons, with the allocation to be made on the basis of dollar amount of bills rendered to the respective patrons during the year.

Naturally, many questions arose as to the details of the plan and the mechanics by which it could be adopted and established in the records. REA prepared a large number of articles on the subject and made them available to its staff and to the borrowers. A good share of the time at the field conferences was devoted to the matter and a little later the borrowers held meetings of their own throughout the country, at which REA representatives presented the subject and attempted to explain the workings of the plan. At this time Mr. Walter Ettleman, who had been active in the making of many contributions to the division, was requested to take the lead in research and development in connection with this subject, following which the Finance Division actively continued its effort to secure adoption of the capital credits procedure and to assist borrowers in making the plan work. In his remarks at the field conferences, Mr. Marion said:

"The institution of patronage credits involves problems for accountants. It is especially important, therefore, that all of us cooperate in carrying out this large task so that the problem may be made as clear as possible even to those who are not basically accountants."

MANUAL OF FUNCTIONS AND ACTIVITIES OF THE DIVISION

In accordance with an industrial engineering program in progress in REA in December 1946, the functions and activities of the Finance Division were compiled and reviewed in accordance with the basic concepts of the duties of the division. After the determination of the functions and activities, a step-by-step procedure was developed for each activity.

THIRD REVISION OF ACCOUNTING MANUAL

In February 1947, formal clearance was received from the Bureau of the Budget on a revision of the Uniform System of Accounts manual. The manual was released to borrowers shortly after approval. It was in this revision that some of the basic account numbers were changed, such as those designating the work-in-progress accounts. Also, the

manual was made more comprehensive. It now included not only complete discussions of the capital credit theory, depreciation, etc., but also general accounting instructions, definitions of accounting terms, and sections of instruction on plant accounts and operations accounts.

This revision of the manual was issued in pocket magazine size and was offset printed, rather than mimeographed.

REPORTS FOR
THE DIRKSEN
COMMITTEE

February 1947 was a very busy month for REA. Not that the normal activities had increased appreciably, but because it was necessary to supply considerable data to a House Appropriations Sub-

committee headed by Representative Everett M. Dirksen. In the investigation conducted by this committee a series of letters to the Secretary of Agriculture was used to obtain the desired information. Letter No. 14, dated February 11, was the principal one dealing with matters within the province of the Finance Division, and it took a lot of work to answer the questions contained in it. The review of the division's work made necessary by this letter was of value in helping to coordinate the various activities. The information required by the Dirksen Committee included: types of audits made by REA staff, number of audits made each year, number of auditors on payroll each year, listing of other functions performed by the division, copies of audit procedures, benefits derived from audits, training offered borrowers' personnel, and likelihood of diminution in Finance Division work.

EFFICIENCY
RATINGS

The Finance Division was always among the leaders in an effort to provide prompt and adequate annual ratings of the performance of government employees.

In April 1947, the division's first efficiency rating committee was appointed to supervise the preparation of the ratings.

The division was considered as having performed such an outstanding job in the matter of preparing ratings that it received from the REA Efficiency Rating Committee a memorandum of commendation, which was referred to as an "Oscar," in the style of Hollywood movie awards. The most recent commendation of this type was the one received from Harlow S. Person, Chairman, REA Efficiency Rating Committee, under date of October 10, 1950. Dr. Person's memorandum reads as follows:

"This is to advise you that the Finance Division again receives the 'Oscar' for doing the best job of executing the efficiency rating program for the period ending March 31, 1950. Every one of your ratings was figured accurately, without a single mistake, one week ahead of the scheduled deadline. This is particularly significant because you also had the largest number of any division.

"We also want to express our appreciation for the analysis you made of the Finance Division ratings in your memorandum dated April 21, 1950. Although the number of Excellent ratings seems high by comparison to the Agency and the Department as a whole, the Committee was willing to accept your explanation.

"The Committee is quite pleased that there has not been a single appeal from REA efficiency ratings this year. We feel that this is a direct result of the fine training and attention that is given to the program by the various divisions, particularly the Finance Division."

THE DIVISION
PLAYS THE GAME
OF "BUMPING"

Toward the end of the fiscal year 1947, the REA found itself rapidly running out of administrative funds. While Congress continued debate on deficiency appropriation bills, the agency began to lay off employees in order to be able to pay the salaries of those who remained. The lay-offs were followed by a series of down-grading of individuals on the basis of a complicated system of points earned for length of service in Civil Service status and number of excellent efficiency ratings. Non-status employees, unless they were war veterans, were generally laid off and status employees displaced one another down the line in a process known as "bumping."

There was considerable confusion and no one knew for sure just where or if he would be working the next week. The division lost a number of employees and many more were bumped. Within a month or two, however, the appropriation bills were passed and needed workers recalled to their jobs.

DISCONTINUANCE
OF BORROWING
FROM R.F.C.

By authority of the appropriation acts for the fiscal year 1948, REA discontinued its borrowing of funds from the Reconstruction Finance Corporation for lending to REA borrowers. Some small amounts had previously been obtainable through the U. S. Treasury, rather than the RFC, and all funds henceforth were to be obtained through the Treasury.

In August 1947, the loan accounts pertaining to REA were transferred from the RFC to the Secretary of the Treasury.

QUESTIONS AND
ANSWERS ON
IMPORTANT PHASES
OF REA ACCOUNTING

The first attempt to furnish borrowers with a comprehensive booklet on commonly-asked questions on REA accounting was in April 1944, when a booklet of this type was issued. Following the field conferences of 1947 it was realized that many questions had been answered at the gatherings of the field staff and it was decided to issue a new and up-to-date question and answer booklet.

The work was completed by August, and on September 16, 1947, the booklet was released under memorandum to borrowers SL-23. The four sections of the booklet covered loan-fund accounting, requisitioning and depositing loan funds, construction accounting and day-by-day bookkeeping.

The question and answer method was so obviously an effective instructional procedure that the writer authorized it for use in building field conference programs in the future. As each general field conference approached, all field representatives and regional office supervisors were requested to furnish questions, which were then subjected to committee review for determination of proper answers to be presented at the conference.

REGIONAL HEAD
QUALIFICATIONS

In his continuing effort to build a more and more efficient organization, the Chief of the Finance Division placed emphasis on the responsibilities assumed by the regional heads and sought to obtain the best qualified men for those positions and to foster self-improvement on the part of incumbents. Illustrative of this objective was the Chief's memorandum of August 6, 1947, to the regional heads relative to the degree of competency required of them. He had previously asked the regional heads to suggest standard qualifications, which were then reviewed and a list of factors was developed for evaluating candidates for regional head positions. Some of these factors were:

1. Ability to apply principles of management effectively to regional work.
2. Ability to discern latent factors affecting the solution of divisional operating problems.
3. Ability to attain leadership and to establish and maintain high standards of performance by subordinates.
4. Ability to think creatively in the development of improved methods and procedures.
5. Loyalty, dependability, industry, education, and experience.

TYPING OF
AUDIT
REPORTS

Field auditors who chanced to be good typists had generally been pleased with the ruling that the field auditors were to type their own audit reports. It gave them opportunity to make sure that the reports were prepared just as they wanted them. However, most of the auditors were not proficient in typing, and they complained bitterly through the years because REA did not have the audit report typed in the office. In 1945 the first of several studies was made on this problem and in October 1947, a typing pool was established in the Finance Division to type all audit reports.

After several months, the pool was disbanded and the audit report typists distributed among the regional offices, where they continued to handle the same phase of the work.

BILLING AND
COLLECTION UNIT

In November 1947, approval was received for the formation of a billing and collection unit in the division. The personnel employed on billing borrowers and receiving collections, which had been in the regional offices, since February 1943, was returned to a central unit and combined with the Recording Unit to form the Loan Accounts Section. This arrangement provided advantages of standardization which could not be gained on the regional basis.

SOME REA
BORROWERS
TO HAVE
CPA AUDITS

Over the years, there was occasional consideration given to the suggestion that some REA borrowers, in exceptionally good financial circumstances, might well be called upon to assume responsibility for the audit of their records. It was not until 1947, however, that the decision was made to adopt this suggestion. The Administration made known its decision that all borrowers having a net worth equal to 25% or more of assets and having lines which had been in service an average of five years or more were to contract for their general audits to be made by certified public accountants approved by REA.

The Finance Division set to work on proposed audit specifications to be made available to CPA firms engaged by borrowers. Audit specifications for the loan-fund audits (still to be made by REA for all borrowers) were also developed. A draft of the CPA audit specifications was completed in September.

On December 22, 1947, Administrator Wickard issued a letter to borrowers stating the new audit policy, and it was announced to the press on January 6, 1948.

Eighty-one borrowers qualified during the first year under the new policy to be responsible for their own audits. During the next year, the qualifications on net worth were lowered to 15 percent and by 1950 fiscal year, 177 of the approximately 1,100 borrowers were subject to CPA audit.

The specifications for the CPA audits were revised as of April 1949, and issued in the form of a booklet entitled, "An Audit Program for Certified Public Accountants Examining the Books of REA Borrowers."

LESLIE SURGINER
BECOMES
ASSISTANT CHIEF
OF FINANCE DIVISION

In the fall of 1947, REA obtained Leslie Surginer from the Farm Credit Administration, to serve as Assistant Chief of the Finance Division. Mr. Surginer is a certified public accountant. He contributed very valuable assistance in the development of the specifications for CPA audits, in formulating a system of control for REA audit production, and in assembling information prepared in connection with the Handbook for Field Auditors subsequently mentioned.

HANDBOOK FOR
FIELD AUDITORS

As was mentioned previously, Field Audit Procedure No. 5 was issued in April 1944.

Soon thereafter, the division began to think seriously of compiling auditing procedures, standard working papers and standard reports into a handbook for the use of the field staff. The writer felt that the audit report analysts, of which there was one in each region, were in an incomparable position to keep abreast of auditing progress and to suggest the basic plan of the proposed manual. He appointed them as a committee to work on this problem and gave H. H. Shipp, a regional head, control of the project. This development of a field handbook constituted one of the toughest and most long-drawn-out projects ever started in the division. In the progress report to the Administrator for December 1945, the division stated that a committee appointed for the purpose of compiling the minimum standards for all audit reports completed its work during the month and assembled a sample report form and related memoranda for final approval. However, it was not until June 1948, that the handbook, in interim form, was placed in the hands of the field auditors for trial use, and it was March 1949 before the handbook was released in final form. But the division was definitely not asleep at the switch! Far from it! The work of developing, writing, and revising the auditing procedures and related data went on constantly amid the regular performance of day-to-day duties.

The committee of analysts, assisted by Field Supervisor Kermit Culver, compiled a set of standard working papers and sample audit adjustments for a mythical cooperative designated as Massachusetts 48 Center. This set of papers served as a guide for even more intensive work that followed under Lloyd Stubkjaer, who devoted full time to the project for many months. In the spring of 1947 and again a year later, tests of the procedures were made on the audits of a Pennsylvania cooperative by Ralph R. Taylor and they were found to be a great improvement over previous ones. Mimeographed manuals of the auditing instructions, sample report, and sample work papers were then prepared and presented to the field staff at the three general field conferences held in June 1948.

In October and November of 1948, six Finance Division field conferences were held to determine how the new handbook was working out in actual auditing. Many constructive suggestions were received which were considered in preparation of the final edition of the handbook. Committees within the Washington office of the division then set to work, and the book was completed within a few months. It was issued in March 1949 and contained sections of instructions on: REA Objectives and Policies; Divisional Functions; the Audit Approach; Audit Performance; Types of Auditors' Assignments; Minimum Acceptable Audit; Test-Check Procedure; Considerations in Auditing Cash, Investments, Notes, Accounts Receivable, Materials, Prepaid and Deferred Items, Utility Plant, Long-Term Debt, Accounts Payable, Liabilities, and Net Worth Items; Uniform Working Papers; and Standard Audit and Field Reports.

AUDIT
PRODUCTION
CONTROL

At the general field conferences held in June 1948, the auditors were given, for the first time, an opportunity to participate in the formulation of audit production schedules for the entire fiscal year ahead. Although such schedules could not be adhered to without change, they became very helpful in keeping all the staff advised of the work ahead and in speeding up production. Such programming of audits became an annual affair.

In the Washington office, Mr. Surginer introduced in April 1949 a quarterly report of selected audit program data. This report provided the Office of the Chief with a good control of audit production within the ten regions and reflected the percentage by which any region might be ahead or behind schedule.

REASSIGNMENT
OF FUNCTIONS
OF REGIONAL
PERSONNEL

In July 1948, a reassignment of some functions of the regional personnel of the Finance Division was carried out. The functions and activities of the regional head included direct responsibility and supervision with respect to the field audit program and the work of the regional office. The position of assistant regional head required, for practical purposes, that the incumbent spend his entire time in the field, supervising the field audit program. Frequently it was necessary for the regional head to visit in the field, which necessitated the presence of the assistant regional head in the office.

The arrangement described above proved to be unsatisfactory, so the position of assistant regional head in the field was reclassified to field audit supervisor, and the position of audit report analyst in the office was reclassified to assistant regional head. The two positions were equal in rank and were filled on the basis of experience and related factors.

REVISION OF
REFRIGERATION
PLANT ACCOUNTING
MANUAL

Throughout 1948, work progressed on a revision of the Uniform System of Accounts for Refrigeration Cooperatives which had borrowed funds from REA. Wesley Giles and Henry Shipp took the lead in the work of revision, and the new manual, in pocket magazine size, was offset printed and released as of January 1, 1949.

The number of refrigeration borrowers had increased only slightly since issuance of the previous edition of the manual, because such concerns had not been very successful and the Administration had not been enthusiastic about making additional loans.

ACCOUNTING
SPECIALIST

first incumbent.

One of Mr. Kittle's first assignments was to take over the revision of the plant accounting manual, which had been in progress for a year and one-half. One of the leaders in the work of revising the manual was Wesley M. Giles, Head of Region 3, who later fell dead of a heart attack, in January 1950.

Mr. Kittle was not able to devote much time to the revision of the 1943 manual of continuing property records procedures, because of the urgency of special accounting problems which resulted from an acquisition in New Hampshire and a loan to a power-type cooperative in Virginia. Therefore, the revision was still in progress as of October 31, 1950.

DEATH OF
W. J. NEAL

All persons connected with the REA program throughout the country were deeply shocked to learn of the automobile accident in New Mexico on October 26, 1949, which took the life of William J. Neal, the Deputy Administrator. Since joining the Administrator's staff in St. Louis, Mr. Neal had earned an unexcelled reputation for hard work and for an intimate knowledge of the varied functions of the whole organization.

The loss of this outstanding official was one of the most grievous blows ever suffered by REA.

REA EMPOWERED
TO MAKE LOANS
FOR RURAL
TELEPHONE
FACILITIES

On October 28, 1949, President Truman signed the act which amended the Rural Electrification Act to provide for the lending of public funds by REA for construction or financing of rural telephone facilities.

REA moved cautiously in starting this new lending program, not only because of the complexity of the task, but in order to avoid mistakes to the extent possible. At first, the development and program work was carried out in each division by means of a special section. In the Finance Division, Mr. Virgil P. Russell was employed as accounting specialist on telephones and placed in charge of such a section.

By September 1950, about 20 loans to telephone borrowers had been approved, and on September 20 there was celebrated at Fredericksburg, Virginia, the occasion of the cutover of the first telephone lines financed by REA. President Truman participated in the historic event by telephoning the first consumer on the REA-financed lines of the Fredericksburg & Wilderness Telephone Company.

FORMALIZED
COMMITTEE
PLAN

Although the division had made use of both standing and special committees throughout its history, no formalized, overall plan for coordinating and utilizing in continuous fashion the work of such committees was formulated until 1949. In August 1949, a carefully-developed committee plan was instituted in the Finance Division for the purpose of conducting studies, surveys, and analyses of any subjects or matters pertaining to the performance of the various activities of the division.

The membership of the committees was selected with proper consideration for the specific contribution each member had demonstrated that he was capable of making in regard to some particular aspect of the work to be assigned. The committees thus established were as follows:

Advisory
Audit Procedure
Awards
Capital Credits Procedure
Depreciation
Efficiency Ratings
Executive
Training and Certificates
General
Interdivisional Problems
REA Accounting Procedures
Staff
Standardization of Procedures
Files
Forms

AUDIT REPORT
WRITING

The writer believed strongly in the audit report as the basic criterion with reference to the audit performance. He often stated that the adequacy of the audit would most often be judged through review of the report and he constantly urged his staff to improve the reports submitted.

In October 1947, and again in September 1949, he released to the entire field staff and supervisors bulletins presenting full instructions for attaining excellence in English grammar and composition in the make-up of audit reports. Kermit Culver, Head of Region 1, Finance Division, served as chairman of the committee responsible for formulating the English instructions.

ADMINISTRATIVE
BULLETINS

Throughout the spring and early summer of 1950, all of the division chiefs and top officials from the Administrator's staff conferred almost daily with the Administrator in carrying out the task of revising all Administrative Bulletins. These bulletins outline policies and procedures for the REA in every field of activity, and it was a tremendous job to bring them up to date.

Most of the work was done in time to present a fairly complete series of the new bulletins to the field staff at the general conferences held in June 1950. The bulletin which affected the work of the Finance Division most of all was No. 55 on the subject of borrowers' records. This bulletin greatly clarified the respective responsibilities of the Finance and Management Divisions concerning borrowers' records and accorded the Finance Division greater responsibility than before.

STATUS OF
ADVANCES
AT END OF
FIFTEEN
YEARS

the total that had been advanced as of the end of the first ten years.

NEW FORMS AND
PROCEDURES FOR
ADVANCING AND
ACCOUNTING FOR
LOAN FUNDS

As was stated previously, a revision of the forms for requesting loan fund advances and accounting for them was made in 1939. The forms then adopted remained in use for eleven years. However, about

the time the REA returned to Washington from St. Louis, serious consideration began to be given

to improving forms and related procedures.

In the succeeding years this phase of the work was under constant study and plans were gradually developed through various committees to make some definite changes. Some of the leaders in this activity were: Robert Howell, Lloyd Beatty, Robert Stein, Ralph Chesley, and Joseph Flannery. The problem was aggravated by the fact that approval of the Administration, the Department of Agriculture, the Bureau of the Budget, and the General Accounting Office was required for any new procedures to be adopted.

The task was arduous and time-consuming, but by January 1949, all basic elements of the new procedures had been agreed upon within REA. In March of that year, there began a series of field tests of the proposed procedure by borrowers, including trial conversions from old forms to new. The ideas and suggestions developed in these tests were given consideration in further work on the new plan, and later in 1949, the finished proposal was submitted for approval of the agencies mentioned above.

Early in 1950, final approval was obtained and the Finance Division set to work on the job of refining the sample forms and preparing the final editions of all instructions. These were ready for presentation to the field staff at the general field conferences in June and the borrowers were supplied with complete instructions a short time later. The new procedures and forms became effective as of August 1, 1950, and in that month the field staff in each region conducted numerous area meetings to explain them to the borrowers' personnel. At these meetings the conversions to the new forms were approved, and thereafter the borrowers operated under the new procedures.

A principal change in procedure was the discontinuance of the requirement that borrowers submit to REA receipts supporting the expenditure of loan funds. Other new features included: securing acknowledgement of payment on invoices made optional; disbursements no longer to be listed on the expenditure report form; only one signature required on forms and that might be the manager's if authorized by the board; no corporate seal impression required; forms assembled in snap-out packets; elimination of separate vouchers, as voucher made part of the requisition form; and separation of reserves from contingency in the list of budget items.

The borrowers were asked to use new construction fund cash received and disbursed forms in order that they might better compile the data required on the monthly one-page expenditure report.

FLOYD KNEISLY
DEPARTS

In August 1950, many members of the Finance Division staff gathered at a farewell dinner for Floyd Kneisly, Head of Region 2. Mr. Kneisly was transferring to the field service in Management Division.

Floyd Kneisly was one of the earliest staff members of the division and carried out some of the first auditing assignments. His zestful approach to his work was admired by all and he was loved for his humorous anecdotes. There was a standing joke to the effect that he was invariably late to staff conferences because of long-distance telephone calls which prevented his prompt departure from his office. However, there was nothing slow about his management of the regional office, and it was considered to be one of the best-run offices in the division.

THE CHIEF
RETIRES

This history of the first fifteen years of the REA Finance Division is brought to an end in the fall of 1950, as its author, the division's chief, retires from his present position as head of the division.

The writer was the chief of the division from the outset, and he is hopeful that his efforts over the years will be adjudged as worthy of the fine governmental organization in which he labored. The record shows that these were years of great accomplishment in which everyone in the REA organization was called upon to contribute his best efforts.

No one remains in a top position in the division who was on the payroll in the very earliest years, but many have served under the writer for a considerable period. At the time of his retirement, the following are found to be serving in responsible positions on his staff:

Assistant Chief	Leslie Surginer
Accounting Specialist	Keith H. Kittle
Assistant to Accounting Specialist	Joseph Krauss
Accounting Specialist (Telephones)	Virgil P. Russell
Assistant to the Chief	Ralph R. Chesley
Head, Loan Accounts Section	Walter I. Ettleman
Head, Billing and Collection Unit	Paul A. Carroll
Head, Recording Section	Herman J. Wall
Head, Correspondence Unit	Dorothy M. Cooley
Secretary to the Chief	Elda V. Blackburn

<u>Region</u>	<u>Regional Head</u>	<u>Asst. Reg. Head</u>	<u>Field Supervisor</u>
1	Kermit L. Culver	C. J. Dineen	Geo. T. Gilleland
2	James J. Murphy	Wm. S. Bolton	Geo. T. Bradbury
3	W. Bernard Loving	Henry J. Froehner	Owen A. Jessup
4	Elton L. Bennett	Russell E. Wade	Hubert Moore
5	Delphos W. Baker	John W. Watson	Harry D. Clarke
6	Clarke W. Phillipi	Rolland W. Mars	Maurice W. Kay
7	Howard C. Paine	Vacancy	Edwin B. Olmsted
8	Joseph P. Flannery	Samuel Gellis	John W. Bear
9	Henry H. Shipp	Albert B. O'Donnell	Allen L. Brown
10	Stephen Hotsko	Carl R. Pullen	(Harvey M. Buchanan, (Merrill R. Riggen

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